



IPO Note

Neelam Linens and Garments (India) Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** Neelam Linens and Garments (India) Limited was originally incorporated on Sep 22, 2010. The registered office is located at Mumbai, Maharashtra.
- **Business Activity:** The company is a soft home furnishing company and is engaged in the business of processing, finishing and supplying of bedsheets, Pillow cover, Duvet Cover, Towels, Rugs, Dohar, Shirts & Garments. They are also into sale of import licenses.
- **Revenue Stream:** The company derives majority of its revenue from sale of bedsheets and sale of import licenses.
- **Human Resource:** The company has 56 permanent employees as on June 30, 2024.

Objects of the Issue -

- Funding capital expenditure requirement of the Company towards purchase of Embroidery Machines for expansion
- Prepayment or repayment of certain borrowing availed by the Company, in part or full
- General Corporate Purposes

Promoters Name -

Kantilal Jethva and Bhavin Jethwa

Rationale for recommendation -

- ✓ The company's bottom line and PAT margin have remained inconsistent over the years.
- ✓ The company's DE ratio has remained high over the years.
- ✓ The company had negative cash flow from operations for FY2023.
- ✓ The RoE and RoCE have declined over the years.
- ✓ The company has slightly high concentration of customers.
- ✓ The management overview is not satisfactory.
- ✓ The industry is highly competitive.

IPO Details

Opening Date	Nov 08, 2024
Closing Date	Nov 12, 2024
Allotment Date	Nov 13, 2024
Listing Date	Nov 18, 2024
Stock Exchange	NSE SME
Lot Size	6,000 Shares
Issue Price Per Share	₹20 to ₹24
Issue Size	13.00 Cr.
Fresh Issue	13.00 Cr.
Offer for Sale	-
Application Amt	₹ 1,44,000 (6,000 shares)

INDUSTRY - Textile

Avg. P/E ratio - 30.6

	KPIs (In Lakhs)			
KPI's	FY 22	FY 23	FY 24	Jun-24
Revenue	10,152.6	10,356.3	10,233.9	2,179.26
EBITDA	593.62	652.51	781.10	176.90
Net Profit	298.57	237.86	246.04	80.46
RoCE	11.26%	10.39%	9.86%	2.02%
ROE	20.33%	11.31%	10.48%	3.31%
P/E	10.91	14.55	14.46	10.98*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post
74.18%	54.30%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	1.66	1.60
BVPS	15.87	19.65
P/E	14.46	14.99
P/BV	1.51	1.22
Mkt Cap (In Cr)	35.52	48.52

*Annualized

Lead Managers -

Export Global Consultants Private Limited

Registrar -

Purva Sharegistry (India) Private Limited

Business Overview -

Neelam Linens and Garments (India) Limited is a soft home furnishing company and is engaged in the business of processing, finishing and supplying of bedsheets, Pillow cover, Duvet Cover, Towels, Rugs, Dohar, Shirts & Garments predominantly for discounted retail outlets. They source surplus or slightly imperfect fabric from the domestic market, applying value-added services such as designing, digital printing, dyeing, stitching, embroidery, and other enhancements.

The company is also into sale of imports licences. This business can be bifurcated into two parts, i.e. sale of the import license received from the government as an incentive which includes RODTEP (Remission of duties and taxes on export product) and ROSCTL (Rebate of state & central Taxes and Levies) and trading of the import license available in the market.

The company has a global clientele, including USA, Australia and Far East. They entered the apparel industry by starting an in-house production of men's and women's fashion apparel since 2023.

Manufacturing Units and Capacity Utilization:

They have two manufacturing units, both located at Thane, Maharashtra. The capacity utilization for bedsheets/ pillow covers remained at 90.91%, 96.44% and 96.44% for FY2022, FY2023 and FY2024 respectively and for Shirt/T-shirt it remained at 5% and 5% for FY2023 and FY2024 respectively.



Product Portfolio:

Product	Description
Bedsheet	10 \$ to 18 \$ per set / ₹ 200 to ₹ 2500 per set (domestic)
Pillow Pair	1\$ to 3.25\$ per pair / ₹ 20 to ₹ 50 per pair (domestic)
Towel	3\$ to 5\$ per piece / ₹ 250 – ₹ 450 per piece (domestic)
Fabric	₹ 90 to ₹ 185 per meter
Shirt	₹ 475 to ₹ 750 per piece
T-Shirt	₹ 225 to ₹ 450 per piece

Few of their products are –



Revenue Bifurcation Product-wise –

Particulars	(Amt in Lakhs)					
	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Bed Sheets	6,982.13	68.77	5,120.95	49.45	6,949.34	67.91
Pillow Pairs	521.71	5.14	353.63	3.41	354.78	3.47
Towel	121.17	1.19	78.34	0.76	75.98	0.74
Hand Towel/ Napkin	92.61	0.91	42.53	0.41	37.99	0.37
RoDTEP Duty Credit Scrips/ Import Licenses	2,435.05	23.98	4,760.86	45.97	2,815.82	27.51
Total	10,152.67	100.00	10,356.31	100.00	10,233.91	100.00

Competition -

- 1. Market Competition:** The industry is competitive where the key factors of competition primarily comprise of product quality, price and variety available.
- 2. Geographic Competition:** The company faces competition from various agencies which provide same services in both online and offline ways with different innovations,
- 3. Barriers to entry:** Low barriers to entry.
- 4. Threat of Substitutes:** High threat of substitutes.
- 5. Bargaining Power of Buyers:** The bargaining power is high with the customers.
- 6. Bargaining Power of Supplier:** The bargaining power is low with the suppliers.

Business Strategies -

1. The company intends to tap new markets and further sell directly through their stores. Direct Selling to customers by opening and developing stores will improve margins.
2. The company proposes to develop eco-friendly and cost-effective production processes and are also focused on improving cost efficiency.
3. The company is focused on introducing new product to cater to the requirements of customers.

Risk Factors -

The company's significant portion of revenue is derived from top 10 customers which contributed to 75.39%, 53.59%, 64.22% and 53.52% for FY2022, 2023, 2024 and Jun-2024 respectively.

The company is highly dependent on sale of bed sheets for their revenue contributing 68.77%, 49.45% and 67.91% for FY2022, FY2023 and FY2024.

The company has 9 cases against it for tax and criminal matters amounting to Rs. 1,567.12 lakhs.

The promoters/directors have 6 cases against them for tax matters amounting to Rs. 163.84 lakhs.

The company has contingent liabilities of Rs. 1,795.18 lakhs.

The company had negative cash flow from operations for FY2023.

PEER ANALYSIS -

Particulars	Neelam Linens and Garments (India) Limited			Loyal Textile Mills Limited			Bannari Amman Spinning Mills Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	2.94%	2.30%	2.40%	5.46%	0.20%	-3.89%	3.35%	-2.10%	-2.31%
EBITDA Margin	5.85%	6.30%	7.63%	12.04%	5.36%	4.01%	11.03%	4.20%	6.01%
RoCE	11.26%	10.39%	9.86%	47.44%	10.88%	0.94%	17.32%	2.96%	3.98%
ROE	20.33%	11.31%	10.48%	26.78%	0.79%	-12.30%	11.59%	-7.03%	-5.50%
EPS (INR)	2.20	1.65	1.66	201.52	5.88	-81.99	9.22	-4.56	-3.39
P/E	10.91	14.55	14.46	-	91.53	-	8.76	-	-

Interpretation -

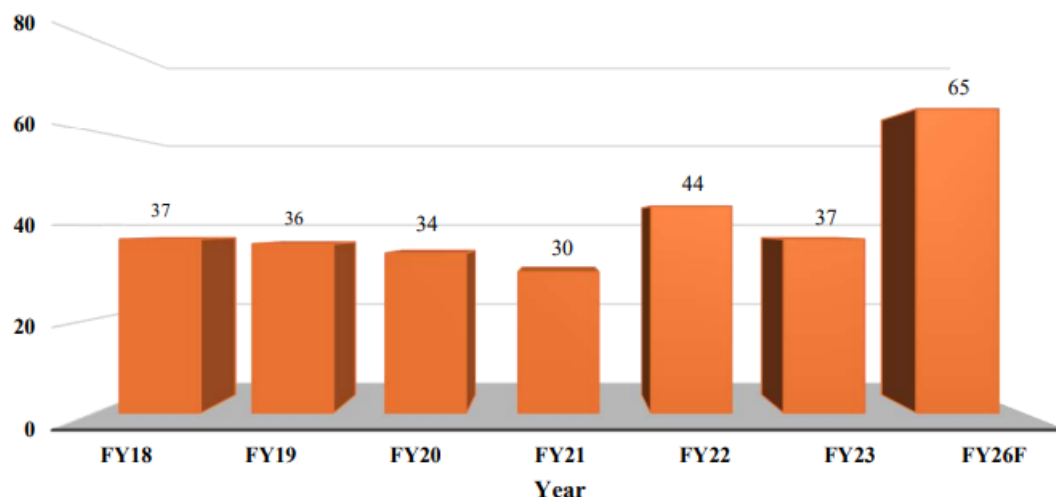
- The company is not comparable on an apple-to-apple basis as both the peers are into manufacturing of cotton yarn, purchase and sale of textiles and also Bannari Amman Spinning Mills Limited is into wind power generation as well. Also, both the peer companies have incurred loss in FY2024.
- The market cap of the company is less compared to its peers.
- The cash conversion cycle of the company is high but better compared to Loyal Textile Mills Limited.

INDUSTRY OVERVIEW -

Textiles and Apparel Industry in India -

India is the world's second-largest producer of textiles and garments. The Indian textile and apparel industry is expected to grow at 10% CAGR from 2019-20 to reach US\$ 190 billion by 2025-26. The ₹10,683 crore (US\$ 1.44 billion) PLI scheme is expected to be a major boost for textile manufacturers. The scheme proposes to incentivize MMF (man-made fibre) apparel, MMF fabrics and 10 segments of technical textiles products

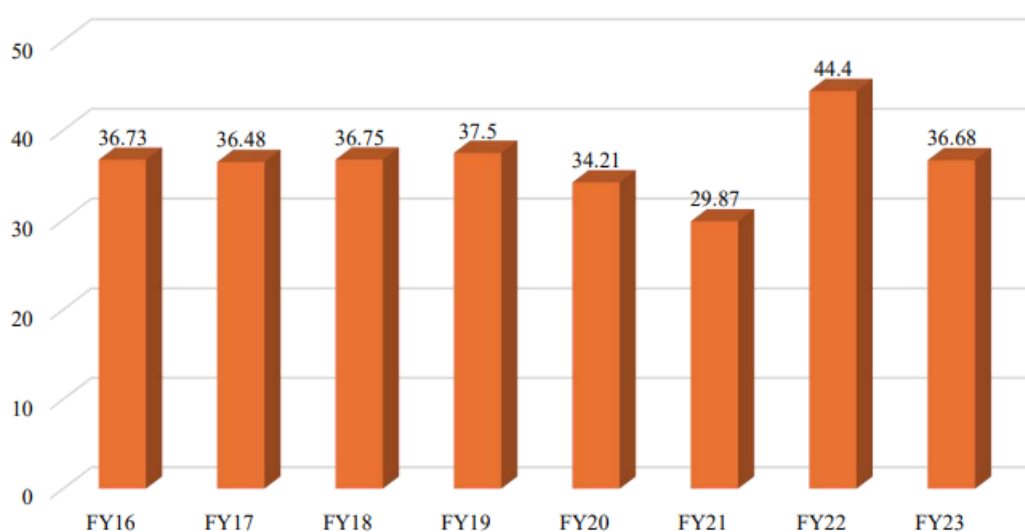
Textiles and apparel exports from India (US\$ billion)



(Source: RHP)

India's ready-made garment exports are likely to surpass US\$ 30 billion by 2027, growing at a CAGR of 12-13%. During (April/March) 2022-23, the total exports of textiles stood at US\$ 36.68 billion. Textile exports reached US\$ 44.4 billion in FY22, a 41% YoY growth.

Growing textile and clothing exports from India (US\$ billion)



(Source: RHP)

Government Initiatives -

1. **Production Linked Incentive (PLI) Scheme:** The Production-Linked Incentive (PLI) Scheme for Textiles products: MMF segment and technical textiles is envisaged to enhance India's manufacturing capabilities and enhancing exports with an approved financial outlay of Rs 10,683 crore over a five year period. The objective is to enable Textile sector to achieve size and scale and to become competitive.
2. **100% FDI under automatic route:** This has enabled key global technical textiles players like Ahlstrom, Johnson & Johnson, Du Pont, Procter & Gamble, 3M, SKAPS, Kimberly Clark, Terram, Maccaferri, Strata Geosystems to start playing in India.
3. **PM-MITRA:** To attract investment for 'Make In India' initiative and to boost employment generation through setting up of 7 (Seven) PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks in Greenfield/Brownfield sites with world class infrastructure including plug and play facility with an outlay of USD 570 Mn for a period of five years.

Key Management -

Key Management Persons Name -	Kantilal Jethva
Age	73
Designation	Promoter, Chairman and Whole-Time Director
Qualification	Bachelor in Art (Special)
Responsibility	Controlling finance and purchase, monitoring day to day business operations, weekly review of projects status, budgets, managing funds and cash flows of the Company
Other Directorships	-

Key Management Persons Name -	Bhavin Jethwa
Age	43
Designation and No. of years of experience	Promoter and Managing Director, 20+ years of experience in Garments industry
Qualification	Bachelor of Commerce degree
Other Directorships	-

Key Management Persons Name -	Falguni Shah
Age	41
Designation	Non-Executive Independent Director
Qualification	Completed higher secondary education
Previous Experience	School Teacher

Key Management Persons Name -	Dinkal Doshi
Age	30
Designation	Non-Executive Independent Director
Qualification	Company Secretary
Other Directorship	Muzali Arts Limited

Key Management Persons Name -	Manish Kamalia
Age	53
Designation	Non-Executive Independent Director
Qualification	-
Previous Experience	Vallabh Packers Company

- The overall management of the company is not satisfactory.
- The promoter and management have decent experience in the industry.
- There is an evidence of dual chairmanship, which is not favourable.
- The management structure is condensed.
- Chetan Solanki (CFO) is an Engineering graduate and has 3 years 8 months of total experience in finance.
- The senior management includes Pooja Sawant (merchandiser) and has 7 years of experience in this field.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Jun-24
Revenue from Operations	10,152.67	10,356.30	10,233.91	2,179.26
Other Income	227.01	184.82	240.51	16.13
Total Income	10,379.68	10,541.12	10,474.42	2,195.39
Expenses				
Cost of Material Consumed	8,815.09	9,125.85	9,113.80	1,808.24
Employee Benefit Expenses	47.80	48.86	58.15	15.84
Finance Cost	303.55	446.17	544.40	136.89
Depreciation and Amortization Expense	127.40	61.43	161.10	41.39
Other expenses	696.16	529.08	280.86	72.02
Total Expenses	9,990.00	10,211.39	10,158.31	2,074.38
EBITDA	593.62	652.51	781.10	176.90
EBITDA Margin	5.85%	6.30%	7.63%	8.12%
Profit/(Loss) before tax	389.68	329.73	316.11	121.01
Tax Expense				
Current tax	95.13	75.03	79.52	30.25
Deferred Tax	-4.02	-16.84	9.45	-10.30
Total Tax	91.11	91.87	70.07	40.55
Profit/(Loss) for the year	298.57	237.86	246.04	80.46
Net Profit Margin	2.94%	2.30%	2.40%	3.66%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Jun-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	20.00	740.00	1,480.00	1,480.00
Reserves and surplus	1,448.42	1,362.30	868.34	948.80
Total Equity	1,468.42	2,102.30	2,348.34	2,428.80
2. Non-current liabilities				
Long-term borrowings	2,673.37	3,586.24	3,938.44	4,291.18
Total Non-current liabilities	2,673.37	3,586.24	3,938.44	4,291.18
3. Current liabilities				
Short-term Borrowings	2,436.85	2,947.79	3,026.50	3,274.86
Trade Payables				
(i) Total outstanding dues of MSME	24.57	57.12	63.41	79.80
(ii) Total outstanding dues of creditors other than MSME	1,151.50	1,126.40	2,078.66	1,119.62
Other Current Liabilities	10.38	43.17	195.64	357.56
Short-term provisions	95.05	104.96	465.75	498.41
Total Current liabilities	3,718.35	4,279.44	5,829.96	5,330.25
Total Liabilities	6,391.72	7,865.68	9,768.40	9,621.43
Total Equity and Liabilities	7,860.14	9,967.98	12,116.74	12,050.23
ASSETS				
1. Non-current assets				
Property, Plant and Equipment	314.94	553.56	394.60	373.21
Deferred Tax Assets (Net)	36.92	20.08	29.53	19.23
Other Non-Currents Assets	1,404.78	1,404.78	1,299.29	1,537.56
Total Non-Current assets	1,756.64	1,978.42	1,723.42	1,930.00
2. Current assets				
Inventories	3,933.62	4,833.62	4,550.18	4,586.32

Particulars	FY 22	FY 23	FY 24	Jun-24
Trade Receivables	1,776.72	1,848.81	4,192.07	3,493.27
Cash & Cash equivalents	198.46	169.20	215.58	798.23
Short term loans and advances	123.99	800.21	928.52	961.90
Other Current Assets	70.70	337.70	506.98	280.52
Total Current assets	6,103.49	7,989.54	10,393.33	10,120.24
Total Assets	7,860.13	9,967.96	12,116.75	12,050.24

Cash Flow Statement

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24	Jun-24
Net Cash Flow from Operating Activities	582.14	-1,112.49	42.43	373.51
Net Cash Flow from Investing Activities	-78.86	-290.41	117.43	-255.07
Net Cash Flow from Financing Activities	-452.55	1,373.64	-113.48	464.21

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24
Diluted EPS	2.20	1.65	1.66	EV/EBITDA	10.75	12.98	11.65
BV per share	734.21	28.41	15.87	Market Cap / Sales	0.48	0.47	0.47
<u>Operating Ratios</u>				P/E	10.91	14.55	14.46
EBITDA Margins	5.85%	6.30%	7.63%	Price to Book Value	0.03	0.84	1.51
PAT Margins	2.94%	2.30%	2.40%	<u>Solvency Ratios</u>			
Inventory days	141.42	170.36	162.29	Debt / Equity	3.48	3.11	2.97
Debtor days	63.88	65.16	149.51	Current Ratio	1.64	1.87	1.78
Creditor days	43.59	43.09	88.54	Quick Ratio	0.58	0.74	1.00
<u>Return Ratios</u>				Asset Turnover	1.29	1.04	0.84
RoCE	11.26%	10.39%	9.86%	Interest Coverage Ratio	1.54	1.32	1.14
RoE	20.33%	11.31%	10.48%				

INTERPRETATION –

1. The top line has remained almost consistent over the years. There was an increase of 2% in FY2023 which was due to increase in sale of licences and a decrease of 1.18% in FY2024 was seen which was due to decrease in sale of licences.
2. The net profit has remained inconsistent over the years. There was a decrease of 20.33% in FY2023 which was due to increase in finance cost and decrease in other income and there was an increase by 3.44% in FY2024 which was due to sale of better product mix and decrease in cost of raw materials and other expenses.
3. The EBITDA margin has increased consistently over the years and PAT margin has remained inconsistent over the years.
4. The RoCE and ROE have declined over the years.
5. The PE ratio has increased over the years.
6. The D/E ratio has remained very high over the years.
7. The debtor days has seen a sudden increase in FY2024.

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is Expert Global Consultants Private Limited.

A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Expert Global Consultants Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Innomet Advanced Materials Limited	34.24	100.00	Sep 18, 2024	187.00
2.	Trom Industries Limited	31.37	115.00	Aug 01, 2024	251.20
3.	Mason Infratech Limited	30.46	64.00	July 01, 2024	141.65
4.	Durlax Top Surface Limited	40.80	68.00	June 26, 2024	58.45
5.	K2 Infragen Limited	40.54	119.00	Apr 08, 2024	242.80
6.	Jay Kailash Namkeen Limited	11.93	73.00	Apr 08, 2024	68.65
7.	Royal Sense Limited	9.86	68.00	Mar 19, 2024	199.20
8.	Mangalam Alloys Limited	54.91	80.00	Oct 04, 2023	38.50
9.	Zeal Global Services Limited	36.46	103.00	Aug 09, 2023	164.60
10.	Sonalis Consumer Products Limited	2.83	30.00	Jun 19, 2023	77.40

The company has handled 12 mandate in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 7th Nov 2024.

As per the offer document, the above-mentioned mandates Mangalam Alloys Limited has opened at a discount and remaining all have opened at a premium on the listing day.

Recommendation -

Neelam Linens and Garments (India) Limited has been in the industry since 2010 and has good experience in the industry. The management overview of the company is not satisfactory.

The P/E on a post-IPO basis is around 14.99 times which makes it fairly priced.

The company's bottom line and PAT margin have remained inconsistent over the years. The DE ratio has remained high over the years. The debtor days has seen a sudden increase in FY2024. The RoCE and RoE have been declining over the years. Also, the company had negative cash flow from operations for FY2023.

The textile and apparel industry is highly fragmented and competitive. There are many established players in this segment.

Thus, investors can **AVOID** this IPO.

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